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PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

1. The Executive Director is pleased to submit this progress report on the status of implementation of the External Auditor recommendations on audits undertaken by the External Auditor. Progress reports are provided to all sessions of the Board.
2. This progress report sets out the recommendations that were reported as outstanding in the last progress report and reports on actions taken and recommendations implemented subsequently. The report is also presented in line with previous recommendations of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the Finance Committee of the Food and Agriculture Organization of the United Nations (FAO) that the progress report on the implementation of the External Auditor's recommendations should include observations of the External Auditor, in particular as to whether the completed status has been verified and accepted by the External Auditor.
3. During the annual session of the Executive Board in June 2007, the ACABQ commented (WFP/EB.A/2007/6 (A, B, C, D, E, F, G, H, I, J)/2) that the remaining outstanding recommendations should be implemented expeditiously. In addition, the FAO Finance Committee (WFP/EB.A/2007/6 (A, B, C, D, E, F, G, H, I, J)/3) expressed its appreciation of the new baseline as agreed with the External Auditor, where completed recommendations were no longer included.
4. The present document includes the comments of the External Auditor on recommendations that the Secretariat has reported as completed.
5. The following matrix summarizes the outstanding recommendations and includes recommendations arising from the recent external audit reports on the "Review of the Cost and Benefits of New Initiatives in Profile Raising" (WFP/EB.A/2007/6-D/1), "Review of Preparation of Financial Statements for 2006 – Progress towards IPSAS" (WFP/EB.A/2007/6-F/1)¹ and "Special Audit Requested by the Executive Board in Relation to WFP's Activities in the Democratic People's Republic of Korea" (WFP/EB.2/2007/5-F/1). Of the 18 outstanding recommendations as at June 2007, 12 had been implemented as at August 2007. These outstanding recommendations include one recommendation that was reported as completed during the annual session of the Board, but which the External Auditor considers to be ongoing pending adjustment of the amount in question. Twenty-two new recommendations (from the aforementioned external audit reports) have been added to the matrix since the previous report. Of the 40 recommendations now in the new baseline, 25 (63 percent) are reported as completed.

¹ IPSAS stands for International Public Sector Accounting Standards.



Audit report	Report date	Recommendations under implementation as at April 2007 (or received subsequently)	Completed as at August 2007	Percent complete
Upgrade of the WFP Information Network and Global System (WINGS)	May 2005	3	2	67
Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST)	October 2005	3	0	0
Review of the Arrangements for Reporting Post-Delivery Food Losses to the Executive Board	January 2006	2	2	100
Review of the Results-Based Management Framework for Monitoring and Reporting Results	June 2006	1	1	100
Audit of the Financial Statements of the World Food Programme for 2004–2005	June 2006	4	2	50
Report of the External Auditor on the Review of Treasury Management	January 2007	5	5	100
Report of the External Auditor on Cost and Benefits of New Initiatives in Profile Raising	June 2007	9	6	67
Report of the External Auditor on Preparation of Financial Statements for 2006 – Progress towards IPSAS	June 2007	7	1	14
Special Audit Requested by the Executive Board in Relation to WFP's Activities in the Democratic People's Republic of Korea	August 2007	6	6	100
Total		40	25	63



PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments
Upgrade of the WFP Information Network and Global System (WFP/EB.A/2005/6-B/1/Rev.1)				
User System Ownership and Acceptance Testing Procedure				
<p>1. Recommendation 7 To achieve these objectives, we recommend that Phase 1 includes plans for a robust user testing methodology in both Headquarters and country offices, that encourages user ownership, leadership and support of any related business process improvement. The approval process of changes and after user acceptance testing should be on the basis of support for any related business change.</p>	<p>The testing methodology was not defined in any depth in the Phase 1 strategy.</p>	<p>The high-level test approach was proposed by Accenture as part of the strategy phase. The analysis phase is underway, and includes the definition of training plans and approaches as well as responsibilities related to user testing and ownership. Stakeholder validation workshops were completed in September 2006 whereby proposed process changes covering all functional areas were tested, followed by signing-off by process owners of process designs and major process changes. The user-testing test plans for release 1 are being prepared for some process areas and will be completed once the detailed-design and the business blue prints are completed in May 2007.</p>	<p>Project plans and activities are well-advanced and the WINGS II project team confirms that the recommendation of the External Auditor is fully in line with the project's strategy for testing: unit testing, user acceptance testing and stress testing will be done by business users in Headquarters and in the country offices. Business users will also define the testing scenarios. This recommendation is deemed completed.</p>	<p>The confirmation that the planned testing procedures is fully in line with our proposals addresses the recommendation. In view of the current redesign of WINGS II, we will consider the robustness of the user acceptance testing after WINGS II implementation.</p>
<p>2. Recommendation 8 To enable a results-based assessment of the effectiveness by which the upgrade meets its objective to reduce overall maintenance costs, we recommend that WFP consider the: quantification of the costs savings expected from reduced Headquarters resource requirements arising from the upgrade and planned outsourcing of activities currently completed in-house; and preparation of a specific target for cost reduction in system maintenance against which the upgrade can be assessed.</p>	<p>The strategy phase included an overall estimate of potential cost savings at Headquarters and in the field. The analysis work will be used to build on the existing estimates and to define targets. The governance structure will be used to ensure that the scope selected for implementation and the solutions chosen are based on the business cases presented by the divisions.</p>	<p>The estimate of potential cost savings has been completed and process objectives and targets were defined during the analysis phase. Process objectives and targets in the "to-be" analysis phase began in May 2006. The Business Blueprint will define the scope of SAP coverage and the extent of customization required. The Secretariat will be in a better position to estimate system maintenance costs once the business blueprint and the detailed design phase are completed in May 2007.</p>	<p>The scope of applications and the number of gaps requiring custom development have been defined. These will be finalized when the fine-tuning of the project scope and ongoing re-design work is completed in October 2007. Once completed, the Secretariat will be able to better estimate overall system maintenance costs.</p>	





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<p>3. Recommendation 9</p> <p>In accordance with good practice, we recommend that prior to the selection of a future contractor/partner and the further implementation of the upgrade process, the WFP undertakes an independent implementation review of lessons learned from Phase 1 by a specialist in the Information Technology field. We believe the implementation of the upgrade and the degree of achievement of the ultimate objectives can be assessed by addressing six main areas, these being: a clearly defined scope for the project; Management of WFP's culture to accept change; ongoing commitment of Senior Management; changes in the business processes to match the new functionality; management of the technology used in the project; and the extent to which the project achieved the ultimate business objectives.</p>	<p>WFP does not consider that it would be valuable to engage another specialist firm to validate the recommendations from Accenture.</p>	<p>Terms of reference have been agreed with a senior independent consultant to conduct a review of the project, with the objective of assessing WFP's capability and capacity to deliver the vision underpinning WINGS II.</p> <p>The project leadership decided that it would be more advisable and useful to measure WFP's capability and capacity to deliver the vision at the end of the analysis phase.</p> <p>There has been a delay in the selection and recruitment of a consultant to undertake the review of the project.</p> <p>The review of the project by a senior independent consultant will start in May 2007 and is expected to be completed in June 2007. The result of such review will be reported to the Board at its Second Regular Session in 2007.</p>	<p>A review of the project by an independent IT specialist has been undertaken. In July, the consultant interviewed approximately 40 stakeholders, including project team members, business process owners, regional directors, internal and external auditors and other senior executives, including the top executive leadership team. The result of his work will be presented to management in October.</p> <p>This recommendation is deemed completed.</p>	<p>The consultant implementation review in 2007 addresses the recommendation although WINGS II planning may have benefited from an earlier review. We will consider the consultant findings when the redesign work mentioned above is completed.</p>
<p>Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST) (WFP/EB.2/2005/5-G/1)</p>				
<p>Mandate</p>				
<p>1. Recommendation 2</p> <p>I recommend that WFP clarify the reporting lines and accountability model for Dubai, and FITTEST; and update its guidance on the objectives of the operations; the process and the activities involved and stakeholder roles.</p>	<p>Agree.</p>	<p>A thorough review and evaluation of the WFP Dubai support office was undertaken; its functions and lines of responsibilities will be included in the Executive Director's circular which will be prepared for the purpose.</p> <p>The Deputy Executive Director (DED) for Administration announced in July 2006 the appointment of the Director for the WFP Dubai Office who will report directly to the Deputy Executive Director for Administration. The</p>	<p>FESO has prepared the Executive Director circular outlining the scope of activities to be conducted by FESO and its accounting and reporting requirements in accordance with existing procedures. This will be presented to the Executive Director for approval once cleared by concerned</p>	



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		<p>office, however, will remain part of the Middle East, Central Asia and Eastern Europe Regional Bureau (ODC) for receiving communications that Headquarters normally distributes through regional bureaux and staff participation in regional workshops and training initiated by Headquarters or regional bureaux.</p> <p>The objectives and operational profile of the WFP Dubai office are being expanded and will be formally defined. WFP Dubai management would collaborate with The Boston Consulting Group (BCG) in defining the new operating model.</p> <p>The Executive Director has approved the establishment of the Dubai office as an administrative regional office that will provide expanded services to meet the needs of the country offices, particularly during emergencies. The Secretariat believes that the Executive Director's decision memorandum of 15 June 2006 defines the present role and reporting lines for the Dubai regional administrative office.</p> <p>A new structure was formalized in 2006; the Dubai office has been renamed WFP Field and Emergency Support Office (FESO).</p> <p>FESO is in the process of preparing an Executive Director circular that will formalize the reporting lines and ensure stakeholder participation.</p> <p>Expected completion dates: cost recovery proposal – May 2007; Executive Director circular – June 2007.</p>	<p>divisions in Headquarters.</p> <p>The cost recovery proposal is in progress and will be completed in October 2007.</p>	

External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments
Risk Management				
<p>2. Recommendation 4</p> <p>I recommend that any Secretariat review of telecommunications and non-food procurement service provision should address how responsibilities for priority setting are set at a senior management level and clear lines of responsibility established.</p>	<p>There are no current indications that the services provided by the Dubai support office for non-WFP activities would jeopardize responsiveness to WFP's emergency activities, but the risk exists in future, particularly in the area of FITTEST.</p>	<p>Management responsibility for priority setting and clear lines of responsibilities will be addressed in the Executive Director's circular which will include lines of responsibilities and delegation of authority.</p> <p>The Executive Director decision memorandum of 15 June 2006 defines the current role and reporting lines of the Dubai regional administrative office. New procedures for off-shoring non-food procurement from Headquarters to Dubai were also established. Procurement activities currently undertaken by the Dubai office has been part of this off-shoring activity and under the responsibility of the Regional Director of the Dubai regional administrative office.</p> <p>As mentioned above, a new structure has been formalized in 2006 and reporting lines have been defined. In addition, new procurement procedures have been initiated by AD with the off-shoring of non-food procurement to Dubai. An Executive Director circular is also being prepared detailing FESO procurement activities. Dubai's existing procurement will also be subsumed into this service.</p>	<p>FESO has prepared the Executive Director's circular and is awaiting signature. The cost recovery proposal will be completed by October 2007.</p>	
Value for money				
<p>3. Recommendation 6</p> <p>I recommend that WFP develop a robust cost identification model and basis for charging fees to enhance transparency and accountability before extending the principle of full cost recovery to other support functions.</p>	<p>The 2004 deficit of US\$600,000 mentioned in the report was mainly a result of fewer projects than anticipated being allocated to WFP Dubai. However, the system to estimate the projects for the subsequent year was reviewed quarterly and proved to work in 2005.</p> <p>The current cost recovery</p>	<p>The Secretariat has regularly reviewed the current cost recovery model in terms of the results of operations.</p> <p>A review of the 2005 financial results of WFP Dubai indicated the appropriateness and efficiency of the current cost recovery model. Nevertheless, the Secretariat will continue to monitor and improve it.</p> <p>With the development of the Fast Administrative Support Team (FAST) and the Global Vehicle Leasing Pool (GVLP) and initiatives to outpost functions from</p>	<p>The proposed cost recovery mechanism is in its final stage. Indirect costs are tracked in line with the new cost recovery mechanism and for the outposted activities already being undertaken by FESO. FESO is currently verifying the cost modalities for individual activities within FESO before making the final recommendation on changing the cost recovery modality.</p>	



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	<p>model appears to work well, but a good deal of work is still needed in the area of monitoring indirect cost recovery and costs incurred.</p>	<p>Headquarters, the models and basis for charging fees have to be continuously reviewed.</p> <p>The BCG study indicated that for the WFP Dubai support office to generate income, it has to run off-shoring and outsourcing services for WFP and others and provide emergency-response capacity in emergencies.</p> <p>The cost recovery model was extensively reviewed in the first quarter of 2007. The review included process mapping, identifying the components of overhead costs, which increased in proportion to increases in all business activities. This information is being considered in the cost recovery model being developed. The proposed cost recovery mechanism is due to be completed by the end of May 2007. As of January 2007, FESO had implemented a more stringent method of tracking indirect overhead costs, which are compared monthly with cost recoveries.</p>	<p>The proposed cost recovery mechanism will be completed in October 2007.</p>	
<p>Review of the Arrangements for Reporting Post-Delivery Food Losses to the Executive Board (WFP/EB.1/2006/6-B/1)</p>				
<p>Identification of Post-Delivery Loss</p>				
<p>1. Recommendation 1 We recommend that WFP consider the use of risk profiling as a basis for focused monitoring, on which a more sensitive and reliable statistical assessment of total food loss might be reported.</p>	<p>Agree.</p>	<p>The Secretariat has explored methods and technical solutions for capturing losses at the distribution level through random sampling techniques, to be piloted in selected country offices in the second half of 2006.</p> <p>A working group has been established to assess sampling methods to address this recommendation. A mission will be conducted in one or two country offices during the second semester of 2006.</p> <p>Systematic random sampling in tracking and reporting commodity losses will ensure that data are obtained more quickly and by scientific and impartial means.</p> <p>A formal risk-profiling method for country offices will be developed as part of the risk-planning strategies.</p>	<p>The interdivisional working group on loss sampling has been strengthened through the hiring of a senior consultant to lead the project.</p> <p>Members of the working group carried out a two-week field mission to the Bangladesh country office, which has developed a sampling methodology applied to monitoring at distribution points. The application of statistical methods to determine the samples for monitoring distribution enables the country office to aggregate monitoring data,</p>	<p>The Secretariat has addressed the recommendation. We will continue to assess the adequacy of monitoring and recording of post-delivery losses during our future field visits.</p>





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		<p>A project document to assess the feasibility of applying statistical sampling methods to determine post-delivery losses has been presented and approved by the Institutional Strengthening Programme (ISP) Steering Committee. Research work will continue during the second and third quarters of 2007. One country office has been piloted; the sampling method is being systematically applied to determine post-delivery losses.</p> <p>An analysis of risk-profiling methods employed by country offices was incorporated into the annual reporting exercise that ended 31 March. A consolidation of this analysis began in April and will be developed in consultation with the Risk Planning Group. This will be the basis of recommending to country offices adoption of a corporate approach.</p>	<p>including information on under-distribution to WFP beneficiaries, on a representative basis.</p> <p>The team is assessing lessons learned during the field mission, especially in terms of their applicability to other operational scenarios in WFP country offices worldwide. Additional missions will be undertaken to further validate the sampling approach.</p> <p>The Secretariat deems the recommendation completed.</p>	
<p>2. Recommendation 8</p> <p>On the basis of the experience gained in the initial piloted installation of the ARGOS system, we recommend WFP ensure that:</p> <p>A suitable environment is available for all new implementations; and country offices determine the most appropriate and effective use of the monitoring system, to confirm the results of cooperating partner reports; to act as an auxiliary monitoring control in addition to monitoring visits; or as the main monitoring mechanism on which loss reports will be prepared.</p> <p>For each of these alternatives, a robust confirmation of the</p>	<p>Agree. The School Feeding Service of the Policy Strategy and Programme Support Division (PDPF) is working to improve the quality of information collected, entered and analysed locally by schools, cooperating partners and country offices.</p> <p>The roll-out of the ARGOS system is expected to be completed by the end of 2006 (1,690 devices have been delivered to 15 countries² and 980 of them have been installed. There are 750 devices still</p>	<p>PDPF focused on the completion of the roll-out and the consolidation/improvement of the current ARGOS system during 2006. PDPF ensured that the system is properly installed and utilized, ensured that school staff, counterpart staff and country office staff are trained and familiar with the use of the system and reviewed the current use of the data collected, including the data analysis methods, to evaluate the current stage of implementation.</p> <p>A suitable environment has been developed by PDPF using the new support system set up in mid-2006 to enable closer contacts with the 15 country offices. This allowed PDPF to provide prompt technical support and guidance. Good progress was made in 2006 in the roll-out of ARGOS: 14 of 15 countries installed it to transmit data collected in the field; 1,158 of the 1,690 devices delivered are operational.</p>	<p>Private sector funds have been secured and allocated for the development of a set of automated easy-to-use processing and reporting tools that will allow country offices to optimize the use of the data offered by ARGOS. PDPF has developed terms of reference (TORs) and an information website to improve the current information. CLS, the company designated to implement the website service, confirmed the timeframe and TORs. The system is expected to be operational in October 2007.</p> <p>The guidelines on how to use ARGOS will be completed by</p>	<p>We will assess the enhancement of monitoring systems in our field visits.</p>

² Afghanistan, Cape Verde, Chad, the Republic of Congo, Djibouti, El Salvador, Guinea-Bissau, Lesotho, Malawi, Mozambique, Pakistan, São Tomé and Príncipe.

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<p>predetermined advantages, cost savings and results expected from the installation should be made to support ongoing monitoring of the system's effectiveness.</p>	<p>to be installed. Three countries³ remain to be trained).</p> <p>ARGOS is promoted as an auxiliary monitoring tool to complement and verify the data generated through other monitoring systems and contained in cooperating partners' reports. It is integrated as such into WFP's Common Monitoring and Evaluation Approach (CMEA).</p>	<p>Most of the devices to be installed are in countries where difficult security and emergency situations impede installation.</p> <p>With the exception of Mauritania, all countries identified have received the devices; training of trainers (TOT) for WFP staff, government staff and teachers has been undertaken.</p> <p>The roll-out of the ARGOS system was almost complete during 2006: 13 out of 14 countries adopted it. There was delay in implementing ARGOS in Sudan because of insecurity, but it is expected that ARGOS implementation will be completed in 2007.</p> <p>During roll-out, it was noted that the web-based data processing system is not fully user-friendly: formula calculation of some indicators is not consistent with WFP's other monitoring and evaluation (M&E) system. This led to a modest use of ARGOS data for actual reporting by many country offices.</p> <p>PDPF has therefore planned for 2007 the following actions to enhance the use of the ARGOS system:</p> <ul style="list-style-type: none"> ➤ develop automated easy-to-use processing and reporting tools that will allow country offices to optimize the use of the data offered by ARGOS; ➤ prepare guidelines on how to use the ARGOS data for existing monitoring systems and for corporate reporting requirements such as SPRs; ➤ extend <i>Collect Localisation Satellite</i> (CLS) technical support service to attend mechanical problems with ARGOS devices; ➤ advocate the use of ARGOS system within and outside WFP. 	<p>November 2007.</p> <p>An agreement has been reached with CLS to extend technical support services in case of mechanical problems with ARGOS devices.</p> <p>CLS and PDPF have agreed to conduct a regional workshop between October and November 2007; arrangements are underway between country offices and regional bureaux for this workshop.</p> <p>This recommendation is deemed completed.</p>	



³ Guinea, Mauritania, Sudan.



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Review of the Results-Based Management Framework for Monitoring and Reporting Results (WFP/EB.2006/A/6-D/1)				
<p>1. Recommendation 6 We recommend that the Secretariat ensures that the Internal Evaluation Committee improves the integration of assessment, programming and monitoring in order to strengthen the reliability of performance information.</p>	<p>Agree. In the course of its routine deliberations the Internal Evaluation Committee is pursuing the integration of assessments, programming and monitoring.</p>	<p>The Internal Evaluation Committee was established in early 2006 and had its first meeting in March 2006.</p> <p>At its December meeting, the committee discussed this recommendation and referred it to the Programme Quality Assurance (PQA) team for action. The PQA team would report to the committee on ways to improve the integration of these activities.</p> <p>The PQA team and the Evaluation Committee are developing a mechanism to provide closer linkage between needs assessment, programming and monitoring.</p>	<p>The matter was examined at the PQA meeting of 15 March 2007. Guidance was given to ensure that comprehensive needs assessments are undertaken for all new project interventions as a means to support a closer integration of needs assessment, programming and monitoring. The issue will also be addressed through further revisions in the functioning of the Programme Review Committee (PRC), including a closer review of linkages between the various steps of the project cycle.</p> <p>This recommendation is deemed completed.</p>	<p>The issuance of further guidance to enable closer integration of needs assessment, programming and monitoring addresses the recommendation.</p>
The Audit of the Financial Statements of the World Food Programme for 2004–2005 (WFP/EB.A/2006/6-A/1/3)				
Governance and internal oversight				
<p>1. Recommendation 1 To reinforce the independence of the Audit Committee and ensure a closer alignment of WFP's arrangements with best practice in governance, I recommend that the Executive Board formally acknowledge the role and mandate of the Audit Committee.</p>	<p>As noted by the External Auditor the Executive Director intends to enhance WFP corporate governance by extending the number of external members on the Audit Committee. The recommendation of the External Auditor is directed to the Executive Board and the Secretariat will act under the guidance of the Board.</p>	<p>No action is planned by the Secretariat, pending consideration by the Board.</p>	<p>The issue is for consideration by the Board.</p>	<p>Under Board consideration.</p>

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<p>2. Recommendation 2</p> <p>I recommend that the Office of Internal Audit (OSDA) finalize an implementation plan for the Institute of Internal Auditors (IIA) recommendations, setting out priorities and time-lines against which progress can be monitored.</p>	<p>Agree.</p>	<p>OSDA will include the recommendations of the IIA in its implementation plan on recommendations from both external and internal quality assessment work.</p> <p>OSDA has identified nine internal projects to implement the IIA recommendations, and these are formally established in OSDA's project-tracking system. At end of 2006, five projects were ongoing.</p> <p>Seven of the nine projects are completed; the two remaining projects are expected to be completed in mid-2007.</p>	<p>Eight of the nine projects are completed. The remaining project is in an advanced stage of completion and will be finalized by September 2007.</p> <p>The Secretariat deems that the recommendation is fully completed.</p>	<p>The completion of the final project to implement the Institute of Internal Auditors' recommendations will fully address our recommendation.</p>
Financial management control				
<p>3. Recommendation 8</p> <p>I recommend that the Secretariat takes steps to establish improved arrangements for the effective quality review of the financial statements for the consistent disclosure and fair WFP valuation of services-in-kind (SIK) contributions in compliance with the appropriate accounting standards.</p>	<p>Agree. This recommendation is timely in that WFP has received increasing levels of services-in-kind contributions in recent years. The valuation of services-in-kind contributions is a complex process that requires clear policies and procedures to arrive at a fair valuation of the contribution.</p>	<p>The Secretariat will enhance the <i>Private Donor Guidelines</i>, particularly on the acceptance of services-in-kind contributions. The Chief Financial Officer (CFO) and the Fundraising and Communications Department (FD) are discussing the most appropriate way of valuing services in-kind.</p> <p>Discussion is ongoing between the CFO and FD on the recording of SIK revenues and expenditures. A proposal will be made to senior management as to which SIK should be recorded in the Financial Statements, having regard to IPSAS requirements from 2008; once approved, this will become WFP policy.</p>	<p>Considering that IPSAS requirements do not require services-in-kind to be recognized as revenue, mainly due to the difficulty of establishing the value of the asset transferred, the Secretariat will adopt a conservative policy in the reporting of private donor in-kind services in the financial statements.</p> <p>Contribution of in-kind services that are directed to WFP projects and activities will be valued in accordance with General Rule XIII.6 and will be recorded in WFP records and reported in the financial statements.</p> <p>This recommendation is deemed completed.</p>	<p>The adoption of the policy for valuation of SIK contributions adequately addresses the recommendation.</p>





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Transactions with the United Nations Development Programme (UNDP)				
<p>4. Recommendation 9</p> <p>I recommend that the Secretariat maintains its efforts to clear outstanding items from the UNDP account 60015 to provide assurance that records of expenditure are complete and payments valid.</p>	<p>Reconciliation of the UNDP account is an ongoing activity that was impacted by problems with the monthly statements of account from UNDP following the implementation of their Atlas system in 2004.</p>	<p>The Secretariat has improved recording and reconciliation of UNDP transactions to ensure correctness of expenditures incurred and paid through UNDP.</p> <p>As part of the exercise, transactions reported by UNDP in 2004 and 2005 were reviewed to identify the causes of differences between WFP and UNDP records. Recording, clearing and reconciling of UNDP transactions by country offices are being monitored by Headquarters.</p> <p>Subsidiary ledger accounts are created for each country office to record UNDP transactions so that country offices can manage their own transactions and to facilitate reconciliation and clearing of UNDP transactions.</p> <p>With effect in 2007, individual ledger accounts have been created and assigned to regional bureaux and country offices to facilitate recording and clearing of UNDP transactions and to monitor finance officers' performance. A global reconciliation was submitted to UNDP in early 2007; reconciling items that were identified were referred to UNDP for adjustment. UNDP is undertaking its own verification of these reconciling items. These reconciliation and clearing activities take place regularly between WFP and UNDP headquarters and between Headquarters and its field offices to ensure that accounts are accurate and up to date.</p> <p>In view of the ongoing nature of monitoring UNDP transactions and taking into account the improvements introduced by the Secretariat in the recording and clearing of UNDP transactions, the Secretariat deems that this recommendation has been substantially addressed.</p>	<p>A full-time consultant has been hired since July 2007 and one of her major tasks is on the reconciliation of UNDP transactions to ensure, among other things, that UNDP transactions are recorded promptly and accurately and that the amount of US\$4.9 million that has been referred to UNDP for adjustment is resolved. Progress has been achieved since then and out of US\$4.9 million, approximately US\$4.1 million has been resolved between WFP and UNDP. The remaining amount is still under verification by UNDP from its local offices.</p> <p>The Secretariat reiterates that in view of the ongoing nature of monitoring UNDP transactions, and taking into account the improvements achieved by the Secretariat in the recording and clearing of UNDP transactions, it deems this recommendation substantially addressed.</p>	

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Report of the WFP External Auditor on Treasury Management (WFP/EB.1/2007/6-B/1)				
Management of Cash, Banking and Foreign Exchange				
<p>1. Recommendation 1</p> <p>We encourage the Secretariat to ensure that treasury cash forecasts provide adequate support for existing programmes or for immediate operational requirements by:</p> <ul style="list-style-type: none"> • encouraging understanding in all units of the benefit of promptly sharing information; • the timely recording of expenditure or commitments; and • encouraging the earliest income notification by donor states. 	Agree.	The Secretariat is committed in improving its business processes as well as introducing enhancements to its current accounting system. Recommendations 1 and 2 are being addressed in the context of the WINGS II project.	<p>The requirements for both Recommendations 1 and 2 are included in the detailed design for the WINGS II project.</p> <p>Considering that the recommendation is being addressed in the context of WINGS II, the Secretariat deems that it has addressed the recommendation.</p>	Since improved business processes are planned for WINGS II implementation, we will review the new processes once WINGS II is operational.
<p>2. Recommendation 2</p> <p>We endorse the planned standardization of cash forecasting and reporting to be implemented by the WINGS accounting system upgrade; and we recommend the global standardization of procedures, roles and responsibilities, wherever possible, as a prerequisite for consistent forecasting.</p>	Agree.	The Secretariat is committed to improving its business processes and introducing enhancements to its current accounting system. Recommendations 1 and 2 are being addressed in the context of the WINGS II project.	The requirements for both Recommendations 1 and 2 are included in the detailed design of the WINGS II project and therefore the Secretariat deems the recommendation completed.	Since standardization of processes is planned for WINGS II implementation, we will consider the new processes once WINGS II is operational.



External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments
<p>3. Recommendation 4</p> <p>We welcome the enhanced control procedures being introduced for electronic payments and encourage the extension of timely linkage of banking statements and the accounting system to assist identification of areas of increased fraud risk.</p>	<p>Agree.</p>	<p>Full compliance with mandatory use of pre-approved vendors in the electronic banking system is planned for April 2007.</p> <p>Automatic bank statement uploads for local bank accounts of field offices is being analysed as part of the WINGS II project.</p>	<p>Full compliance with mandatory use of pre-approved vendors in the CitiDirect electronic banking system was achieved as of July 2007.</p> <p>Automatic bank statement upload for local bank accounts of field offices is included in the detailed design for the WINGS II project.</p> <p>This recommendation is deemed completed.</p>	<p>The automatic bank statement upload and pre-approval of vendors, addresses the recommendation.</p>
Management Oversight of Invested Funds				
<p>4. Recommendation 6</p> <p>We recommend that following the appointment of a fourth investment manager by competitive tender, financial service contracts should be subject to periodic competitive tender on a rotational basis, which enables continuity of financial service provision and transparent confirmation of cost efficiency and investment performance.</p>	<p>Agree. Obtaining competitive financial services and limiting the dependency on any financial services providers are both high on the Secretariat's agenda. The recommended tender process on a rotational basis has already been considered by the Investment Committee.</p>	<p>A competitive search for additional investment managers for short-term investment portfolios and for the investment adviser has started; it is expected to be completed before the end of 2007.</p>	<p>A competitive search for additional investment managers for the short-term investment portfolio is in progress and selection is expected to be made before the end of 2007.</p> <p>This recommendation is deemed completed.</p>	<p>The competitive selection of a fourth financial service provider addresses the recommendation. We will examine the adequacy of periodic tendering of financial service providers when introduced.</p>



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Treasury Guidance, Performance and Risk Assessment				
<p>5. Recommendation 10</p> <p>In view of the need for clear accountability and the maintenance of treasury operational capacity, we recommend that key treasury guidance be prepared and approved at the earliest opportunity to:</p> <ul style="list-style-type: none"> • enable flexibility in staff coverage and training; and • effectively manage treasury procedures. 	Agree.	Following revision of treasury policies in 2006, preparation of treasury procedures is deemed necessary and is scheduled to be completed before the end of 2007.	<p>In conjunction with the WINGS II project all key treasury processes have been outlined in process diagrams with detailed descriptions of steps/tasks to be performed by individual treasury staff.</p> <p>The process description was finalized in June 2007.</p> <p>This recommendation is deemed completed.</p>	The preparation of key Treasury process diagrams incorporating staff actions adequately addresses the recommendation.
Report of the WFP External Auditor on Cost and Benefits of New Initiatives in Profile Raising (WFP/EB.A/2007/6-D/1)				
Alignment with Corporate Priorities				
<p>1. Recommendation 1</p> <p>We encourage the Secretariat to ensure that the strategies for fundraising fully and transparently align activities and targets with the Strategic and Management Plans. Both the Strategic Plan and management objectives need to be stretching but realistic if resources are to be planned and utilized effectively.</p>	<p>Agreed.</p> <p>The fundraising and communications strategy will be developed and aligned with the approved Strategic and Management Plans. WFP's fundraising efforts aim to ensure increased and stable funding from traditional donors, broaden the support base, attract new donors and encourage occasional donors to become regular contributors.</p>		<p>With reference to the 2006–2009 Strategic Plan, WFP's resource mobilization approach continues to encourage an expanded and regular donor base. In this regard, WFP has successfully engaged new donors, several of which are also recipients, and continued to focus on maintaining and enhancing relationships with WFP's top donors.</p> <p>Resourcing targets are to meet fully assessed needs of the programmes and operations approved by the Executive Board, consistent with the principles of good humanitarian donorship. In 2006, resources covered 91 percent of those needs, against a historical funding level of 81 percent.</p>	The alignment of Strategic Plans and the Fund Recovery and Communications Strategy will address the recommendation.





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			<p>The Communications Division is working with government and private sector fundraising divisions to ensure that communication activities support strategic fundraising targets. On 26 July 2007 an informal consultation was held to discuss the fundraising and communications strategy.</p> <p>The Secretariat need take no further action and deems this recommendation as completed.</p>		
Adequacy of Corporate Strategy					
2.	<p>Recommendation 2</p> <p>We recommend that the Secretariat ensure that any private sector strategy:</p> <ul style="list-style-type: none"> identifies and recovers full costs, including the cost of servicing any loans or other finance; specify expected rates of return on actual costs; and address any risk of falling behind the planned schedule for fundraising from the private sector. 	<p>Agreed.</p> <p>All private sector donations are subject to the 7 percent ISC required by WFP's financial rules and regulations and include an obligation to cover the costs of managing and implementing the donation.</p> <p>The rate of return of private sector donor relations activities will be calculated on an annual basis.</p> <p>The Private Sector Division (FDP) will submit its private sector fundraising strategy to the Board to ensure it meets its fundraising targets.</p>		<p>A long-term private sector strategy paper, which includes the financial plan, is up for consideration by the Executive Board in October 2007.</p> <p>An informal consultation in July 2007 provided Members of the Board with the opportunity to share their views on this issue.</p>	

External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments
<p>3. Recommendation 3</p> <p>We encourage the Secretariat to ensure robust performance targets in future communications strategies:</p> <ul style="list-style-type: none"> • Quantify expected costs to be recovered over a set timeframe; and • Set targets for increased funding to be achieved against existing levels. 	<p>Agreed.</p> <p>Communications and advocacy can help make the general public, donors, the private sector and political decision-makers aware of hunger issues and WFP activities. Advocacy is often critical in generating financial support in a competitive funding environment.</p>		<p>The Strategic Plan for private sector fundraising details the increase in funding and the related costs.</p> <p>By their nature, it is seldom possible to demonstrate a one-to-one link between particular communications and awareness activities and levels of funds raised. However there are some notable examples (Niger, Darfur, Cambodia) where the direct link between awareness raising and resource mobilization is clear.</p>	
Focus and Prioritization of Implementation Planning				
<p>4. Recommendation 4</p> <p>We encourage the Secretariat to ensure that the implementation planning should incorporate a risk assessment of prioritized goals and establish targets for planned activities over a predetermined timeframe.</p>	<p>Agreed.</p>		<p>Walk the Word is being reconfigured as an event to be led by WFP's major corporate partners. (See also Recommendation 9.) WFP's support to Walk the World events will be very limited. Participation by country offices will be voluntary and have minimal financial implications.</p> <p>The Secretariat need take no further action and deems this recommendation as completed.</p>	<p>The transfer of risk associated with Walk the World complies with the recommendation. We will continue to review the effectiveness of risk assessment generally and of performance targets.</p>





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Costs Estimation and Budgeting					
5.	<p>Recommendation 5</p> <p>We encourage the Secretariat to periodically review profile raising activities to ensure the allocation of the most cost-efficient resources which can achieve prioritized corporate targets.</p>	Agreed.		<p>This exercise is being undertaken within the framework of the 2008/2009 Management Plan. It should be noted, however, that a more discriminate approach is needed to define the activities that might be described as profile raising. Advancing WFP's agenda within the United Nations system, consistent with the direction of the Executive Board, would not in our view be properly described as a new initiative in profile raising.</p> <p>The Secretariat need take no further action and deems this recommendation as completed.</p>	<p>The finalization of the Management Plan for 2008-2009 will address the recommendation.</p>
Ethical and Reputational Risk of Partnerships with the Private Sector					
6.	<p>Recommendation 6</p> <p>We encourage the Secretariat to maintain clear transparent guidelines for Partnership which include:</p> <ul style="list-style-type: none"> • Procedures for monitoring compliance with the guidelines; • Periodic partner confirmation of any issues where conflicts of interest may arise; and • The need for staff to remain alert to potential ethical issues. 	Agreed.		<p>WFP has developed guidelines for engaging the private sector that are in line with United Nations guidelines.</p> <p>It has established a team to conduct research into companies prior to establishing relationships with them. It has instructions for country offices and other WFP units, staff to conduct research and a format for a committee to review and decide on controversial prospects.</p> <p>The research team conducts periodic partner reviews to ensure WFP is informed of any conflicts and potential ethical issues that may arise.</p> <p>All relevant information about past and current donors and partners</p>	<p>The guidelines for private sector and partner reviews addresses the recommendation.</p>

External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments	
				<p>is stored and recorded in a central database for reference.</p> <p>The Secretariat need take no further action and deems this recommendation as completed.</p>	
Monitoring and Reporting Procedures					
7.	<p>Recommendation 7</p> <p>We encourage the Secretariat to ensure the accurate recording and reporting of staff time spent on communications to enable the assessment of the costs of the activity and robust performance reporting.</p>	Disagreed.		<p>The Secretariat is not aware of any organization that seeks to analyse a generic activity such as communications. In essence, communications takes place in every office at every level in every activity and it is literally impossible to attempt to disaggregate it in the fashion proposed in this report. For example, is the staff time attributable to preparing a letter to donors describing the economic and political conditions in the DRC and the food security situation a communications, fundraising or donor reporting activity? On this point the external audit report aggregates distinct activities with multiple goals. The proposed recommendation would be a very costly model to implement, with very limited value to management.</p> <p>The Secretariat considers that it need take no further action.</p>	<p>Although the Secretariat has considered cost efficiency and problems arising with identification of communications activity, we will continue to emphasize the benefit of staff time recording to informed decision making and budgetary control.</p>





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Achievement and Quantification of Key Benefits					
8.	<p>Recommendation 8</p> <p>We encourage the Secretariat to maintain its efforts to set realistic objectives against which to assess performance and to address the risk of unforeseen resource requirements through:</p> <ul style="list-style-type: none"> • Analysis of cost prior to commitment to major activities to assess risks to WFP; • Encouragement of partners to take responsibility for any residual risk as part of their commitment to events; and • Monitoring of progress against objectives based on previous experience or expert advice to ensure the ongoing viability of events. 	<p>Agreed.</p> <p>Those elements of this recommendation that refer to Walk the World are dealt with in Recommendation 4.</p>		<p>On the second bullet point, the initial goal to have 10 percent of all income funded by the private sector was more an optimistic ambition than a realistic assessment of possibilities. At the time, the capacity to assess the potential was not as developed as it is now. The upcoming private sector strategy, to be considered by the Executive Board in October, is based on robust and realistic analysis.</p> <p>The Secretariat also refers to the action it has taken in relation to Recommendation 4, above.</p>	
Strategies for Profile Raising					
9.	<p>Recommendation 9</p> <p>We encourage the Secretariat to consider the scope for:</p> <ul style="list-style-type: none"> • Outsourcing profile raising to professional companies willing to operate on a pro-bono basis to achieve preset measurable increases in WFP's profile and enhanced resources at a prearranged cost-benefit ratio; 	<p>Agreed.</p> <p>We appreciate the External Auditor's support for the self-funding arrangement as laid out in the draft private sector strategy, which was reviewed as part of the audit.</p>		<p>The Secretariat has considered the recommendation to outsource profile raising in relation to government relations and communications and advocacy.</p> <p>WFP does not envisage using any private intermediaries with its Government partners</p> <p>Regarding communications and advocacy, the Secretariat has considered the option of</p>	<p>The transfer of risk through outsourcing events and the establishment of a self-funding arrangement in the approved Private Sector Fund Raising Strategy addresses the recommendation.</p>

External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments
<ul style="list-style-type: none"> Establishing a self funding arrangement for in-house communications activity based on robust performance assessment against full costs of activities. 			<p>outsourcing "events" and is pursuing the option in some cases; Walk the World will now be led by WFP's major corporate partners. Public relations firms and advertising agencies have been engaged on occasions where they offered to assist WFP pro bono with publicity campaigns. WFP will continue to engage with them on those terms.</p> <p>Regarding editorials, press releases, press conferences, media interviews, parliamentary visits to operations and other activities, the Secretariat does not see any role for an intermediary, pro bono or otherwise.</p> <p>The Secretariat need take no further action and deems this recommendation as completed.</p>	
<p>Report of the WFP External Auditor on Preparation of Financial Statements for 2006 – Progress towards IPSAS (WFP/EB.A/2007/6-F/1)</p>				
<p><i>Lessons of 2006 Preparation of Financial Statements</i></p>				
<p>1. Recommendation 1 As part of the accounts planning process, we recommend that the Secretariat establish timely and effective quality review of the financial statements prior to submission for audit.</p>	<p>In preparing the 2006 financial statements, the Secretariat considered lessons learned from the past accounts closure exercises, including the provision of adequate time for the review of the draft accounts both by concerned staff within the CFO and by senior management before the statement was finalized. Because this was the first time that a complete set of annual accounts was prepared, the Secretariat will again review the time</p>		<p>The closure guidelines for the 2006–2007 biennial closure of accounts will provide adequate time to concerned officers who will review the financial statements to afford a quality review of the biennial accounts before the same are submitted to the external auditor for audit.</p>	





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		allotted for closure-related tasks to ensure that a quality review of the 2006-2007 biennial accounts and subsequent annual accounts is undertaken before they are submitted to NAO for audit.		
2.	Recommendation 2 We recommend the Secretariat continue its efforts to clear outstanding items from the UNDP account to provide assurance that records of expenditure are complete and payments valid.	Agreed.		<p>The Secretariat has always endeavoured for the timely clearances of outstanding transactions relating to UNDP. Transactions posted against individual UNDP accounts assigned for each country office or regional bureau are closely monitored to ensure that expenditures are recorded on time and that clearance of these transactions are subsequently effected once a report of expenditures paid is received from UNDP.</p> <p>The Secretariat intends to perform another reconciliation at the end of 2007.</p>

External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments	
Accounting Policy Changes					
3.	<p>Recommendation 3</p> <p>We recommend that the Secretariat ensure compliance with the IPSAS requirement for recognition of staff services which have been provided prior to the end of an accounting period.</p>	<p>In preparing for the transition to IPSAS in 2008 WFP has identified all areas where gaps exist between the requirements under United Nations System Accounting Standards and those of IPSAS. One of the major changes under IPSAS will be in the accrual and reporting of employee benefit liabilities and WFP has taken the necessary action to ensure that the information will be available and reported correctly. The issue of employee liabilities was also reported to the Executive Board at its 2007 Annual Session in the document "Fourth Progress Report on the Implementation of International Public Sector Accounting Standards" (WFP/EB.A/2007/6-A/1).</p> <p>Although full IPSAS implementation will not take effect before 2008, the Secretariat is considering the possibility of accruing for employee benefits as at the end of 2007 and including these in the biennial financial statements for 2006–2007.</p>		<p>The Secretariat is considering the possibility of accruing all staff liabilities at the end of 2007.</p> <p>When WFP introduces IPSAS in 2008, this reporting requirement will be implemented as for all others under IPSAS.</p>	





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Development of Financial Systems to Support IPSAS					
4.	<p>Recommendation 4</p> <p>As part of the accounts preparation planning, we recommend that the Secretariat coordinate timely completion of management controls which allow for effective management quality review of the financial statements, prior to submission for audit.</p>	<p>The Secretariat will reconcile WINGS and the Resource Mobilization System (RMS) immediately following the closure of period 12 to enable timely correction of any discrepancies. It is to be noted that when WINGS II is implemented, RMS will be replaced by an integrated solution, called Grants Management Module, which will eliminate the need for such reconciliations.</p>		<p>The closure guidelines for the 2006–2007 biennial closure of accounts will provide detailed instructions on the timely completion of management controls to ensure that all income is properly recorded.</p>	
5.	<p>Recommendation 5</p> <p>We recommend that the Secretariat ensure that robust monitoring of the cancellation of vendor balances be maintained to ensure that assets and liabilities are accurately reported in accordance with the relevant accounting standards.</p>	<p>Since 2006, there has been significant improvement in clearing vendor balances, and regional bureaux finance officers have exercised an active role in overseeing the financial and accounting activities of country office finance officers under their respective responsibility. Country offices are also required to provide information on the status of their accounts through the monthly financial reporting package to ensure that accounts are kept up to date.</p> <p>With respect to recoveries through payroll, the creation of new payables when recoveries are</p>		<p>The Secretariat has issued detailed procedures on how to record vendor advances and payables to ensure that assets and liabilities are accurately recorded and reported in the financial statements. Review of balances is also undertaken on a regular basis to ensure full compliance with existing guidelines.</p> <p>This recommendation is deemed completed.</p>	<p>We will assess the effectiveness of the procedures for vendor advances and payables in our review of the 2006-2007 biennial financial statements.</p>



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	<p>effected from staff is being evaluated in the context of WINGS II to ensure that payroll recoveries would result to reduction of staff receivables rather than creation of new payables. As a temporary solution, clearing of staff vendor balances is undertaken on a quarterly basis to offset all recoveries made against outstanding receivables.</p> <p>In May 2007 the CFO issued finance procedures on recording of vendor receivables and payables (FP2007/003) to ensure accurate recording and reporting of these transactions.</p>			
<p>6. Recommendation 6</p> <p>We recommend that the Secretariat reinforce the allocation of income and expenditure to appropriate accounting periods by:</p> <ul style="list-style-type: none"> Considering a shorter period for income and expenditure to be recorded after the end of each year before closure of the accounting records and preparation of the financial statements; Ensuring income and expenditures is recorded to the accounting period evidenced by the accounting records; and 	<p>After due consideration, the Secretariat deems it not prudent to have a shorter period for posting income and expenditure items before closure of the accounting records. WFP has a significant number of transactions, and country offices need adequate time to ensure that items are booked in the correct period. The closure instructions for the 2006-2007 biennium accounts preparation will again put emphasis on the importance of recording financial transactions in the appropriate period, specifically on income and expenditure recognition</p>		<p>In June 2007 the Secretariat issued a joint message from the Deputy Executive Directors of Operations and Administration on expenditure recognition to emphasize the importance of recognizing expenditures at the appropriate accounting period. It will also require certification from concerned officers that transactions are properly reflected and recorded in WFP accounting records.</p>	

External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments
<ul style="list-style-type: none"> Reissuing guidelines with lessons arising from the preparation of the 2006 financial accounts. 	<p>policies. In addition, training/information dissemination will be conducted in both Headquarters and field offices, targeting finance officers and concerned staff from spending and fundraising units. Two of the major areas to be given focus, which will assist in the accuracy of the 2006-2007 biennial accounts, are the recording of expenditures and recording of contribution income in the appropriate accounting periods.</p>			
IPSAS Project Management				
<p>7. Recommendation 7 We encourage the Secretariat to ensure that the:</p> <ul style="list-style-type: none"> Schedule for implementation of WINGS II enables adequate time for the establishment of auditable financial statements at the end of 2008 which comply with international public sector accounting standards: and Accounting difficulties identified during our financial review of the financial statements for 2006 are fully addressed and communicated to staff. 	<p>The Secretariat is reviewing the implications of IPSAS compliance for 2008 on the schedule of implementation of WINGS II. The Secretariat has fully noted the points raised from the audit review and has taken appropriate action.</p>		<p>The Secretariat has been working to ensure that the 2008 financial statements will be IPSAS compliant.</p> <p>The actions taken by the Secretariat, as included under Recommendations 3, 4, 5 and 6, will be strictly enforced and observed to ensure the accuracy and timeliness of the financial statements.</p>	



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Special Audit Requested by the Executive Board in Relation to WFP's Activities in the Democratic People's Republic of Korea (WFP/EB.2/2007/5-F/1)					
Accountability Framework					
1.	<p>Recommendation 1</p> <p>We recommend that the Secretariat ensure the maintenance of:</p> <ul style="list-style-type: none"> timely and adequate response to internal and external audit recommendations; and robust risk assessment of country office operations. 	<p>With regard to the need for timely and adequate response to audit recommendations, WFP notes that of the 14 recommendations deemed high or medium priority in the External Audit of the Democratic People's Republic of Korea (DPRK) in 2005, 11 have been closed and the remaining three are presently being addressed by the country office in discussions with the Government.</p> <p>Any outstanding recommendations and issues from the Special Audit or previous audits will be addressed continuously, keeping in mind the constraints inherent to the operating climate in the DPRK. Matters within our control are addressed as expeditiously as possible.</p> <p>WFP acknowledges the need for a robust risk assessment of country office operations and has already incorporated a risk analysis element in the work plan process for 2007. Enterprise Risk Management (ERM) policies are also being implemented and embedded in country office processes and procedures.</p>		<p>The Secretariat will continue addressing audit recommendations in a timely manner and adopting a robust risk management strategy in the country office operations. As no other specific action is required from the Secretariat, this recommendation is deemed adequately completed.</p>	<p>The establishment of risk management in the 2007 work plan and ongoing discussion with the Government addresses the recommendation in principle. We will continue to assess the adequacy of Secretariat responses to our recommendations.</p>





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	<p>WFP has taken a proactive approach to risk management in Asia with a particular focus on DPRK. A key element of this risk management strategy is full transparency with the Executive Board, donors and other interested parties, including the press, with regard to WFP operations in DPRK.</p>				
<p>Compliance with Applicable Financial Regulations and Rules</p>					
<p>2.</p>	<p>Recommendation 2</p> <p>Although we welcome the clarification of the nature of operations in DPRK, we encourage the Secretariat to ensure the effective maintenance of equipment supplied to factory units currently on standby. Where standby factories are deemed unlikely to be reopened, WFP equipment should be cost-effectively recovered or transferred to the Government partner in accordance with the financial rules at the end of the programme to avoid any unforeseen risks to WFP.</p>	<p>Transfer of equipment in standby factories has not been undertaken as it is still uncertain whether these factories will need to be reopened in the event of an expansion of WFP operations. Should reopening of these factories be deemed unlikely, WFP would transfer the equipment to the Government in line with the financial rules already being observed by the Local Property Survey Board when WFP properties are disposed.</p>		<p>As the transfer of equipment could not be undertaken by the country office pending determination whether standby factories will be reopened, no further action could be taken by the Secretariat.</p> <p>Considering that relevant financial rules are observed by the country office in the disposal of WFP properties, the Secretariat deems that this recommendation is completed.</p>	<p>In the absence of any time limit for the reopening of standby factories, the Secretariat has currently addressed the recommendation.</p>

External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments	
Staff Hiring					
3.	<p>Recommendation 3</p> <p>We recommend that the Secretariat continue to make international staff responsible for all financial and programme management and wherever possible to restrict access to the accounting system to staff recruited by WFP.</p>	<p>The Secretariat welcomes the External Auditor's recognition of the appropriateness of the actions taken by the Secretariat in this regard. The long-standing practice of ensuring that all payment functions, including certifying, approving and disbursing, are performed only by international officers will be maintained. Access to WFP accounting software (WINGS) remains limited to international staff members only. Similarly, programme management will continue to be done under the supervision of international programme officers.</p>		<p>Given that the country office has in place already the long-standing practice of ensuring that all payment functions, including certifying, approving and disbursing, are performed only by international officers, no action need be taken by the Secretariat and this recommendation is deemed completed.</p>	<p>The ongoing restriction of certifying and approving officers and disbursing to international officers appointed by the Programme addresses the recommendation.</p>
Foreign Currency Transactions					
4.	<p>Recommendation 4</p> <p>We encourage the Secretariat to minimize the risk of foreign exchange loss by maintaining efforts to ensure that payments reflect the most cost-effective currency arrangements; that cash payments are minimized; and that foreign exchange rates agreed with local vendors or Government Ministries are determined by the United Nations' monthly published rates of exchange.</p>	<p>The efforts by the country office to minimize cash payments, as acknowledged in the audit report, will be maintained.</p> <p>Regarding currency of payment, the country office is a party to a United Nations-wide practice that all local payments in DPRK (except petty cash payments) will be made in local currency, thereby reducing hard currency disbursements. All hard currency claims are</p>		<p>The actions taken by the country office to minimize cash payments and to effect payments in local currency using the United Nations operational rate of exchange have addressed this recommendation. The Secretariat deemed this recommendation completed.</p>	<p>The Secretariat has addressed the recommendation.</p>





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	<p>converted at applicable United Nations exchange rates. However, the sole Government bank applies its own exchange rate to all foreign currency transfers into the country.</p>				
Access to Beneficiaries and Monitoring Procedures					
5.	<p>Recommendation 5</p> <p>We recommend that WFP should critically review the reliability of food monitoring statistics and continue efforts to extend field monitoring agreements to support unrestricted access wherever possible, to include translators supplied by WFP.</p>	<p>WFP operations in the DPRK have shifted from large-scale emergency operations (EMOPs) to a protracted relief and recovery operation (PRRO), much smaller in size and with a more limited geographical focus and more precise targeting. As a consequence, monitoring requirements and methods have been changed accordingly. Under the current PRRO, WFP is able to visit distribution sites every quarter for vulnerable group feeding and three times during the cycle of food-for-community-development projects and it can visit the factories every two months. Logistics staff are expected to be able to visit warehouses and arrival ports as and when required.</p> <p>WFP international staff have undertaken a significant number of monitoring visits under the current PRRO. As of the</p>		<p>As part of its ongoing negotiations with the Government, the country office is making efforts to obtain wider coverage and conduct more frequent monitoring visits. Pending such an agreement from the Government and its acquiescence to WFP hiring Korean-speaking international staff, no further action could be taken by the Secretariat to address the recommendations. The Secretariat deemed, however, that the significant number of monitoring visits conducted by the country office under the current PRRO has adequately addressed the recommendation.</p>	<p>Within the constraints existing in DPRK, the Secretariat is addressing the recommendation.</p>



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	<p>end of July 2007, there were 756 visits undertaken, an average of 56 visits per month.</p> <p>Monitoring, however, does continue to fall below standards applicable in most other countries and WFP will continue efforts to extend coverage and frequency as part of the ongoing discussions with the Government.</p> <p>WFP continues its long-standing efforts to obtain permission to assign Korean-speaking international staff to its country office in Pyongyang; the Government has not indicated an intention to change its policy of refusing to accept such staff.</p> <p>It should be noted that ever since large-scale international assistance programmes began in the DPRK in the mid-1990s, the DPRK authorities have never permitted unrestricted access by any United Nations organization or non-governmental organization (NGO). WFP's access and ability to monitor its operations are generally more comprehensive than that of other multilateral organizations and bilateral donors.</p>			



External Auditor's recommendations	WFP response	Actions taken as at April 2007	Actions taken to date or to be taken as at August 2007	NAO Comments	
Direct Payments for Projects Undertaken by National Authorities					
6.	<p>Recommendation 6</p> <p>We encourage the Secretariat to ensure robust reporting of post-delivery losses and the maintenance of reasonable assurances over consignment delivery.</p>	<p>Since August 2007, the country office has implemented the WFP Commodity Movement Processing and Analysis System (COMPAS) in the DPRK. The use of COMPAS had been pursued for a long time and its implementation will significantly enhance WFP's ability to track commodity deliveries and help account for post-delivery losses.</p> <p>The country office also continues to engage with counterparts and boost their capacity to duly complete the consignment notes (CNs) in an accurate and timely fashion and to report on any post-delivery losses. For example, during regular logistics missions since the beginning of the PRRO (June 2006) country office staff have been teaching counterparts the correct way to fill out CNs and have provided them with other tools (e.g. stack cards for use in Government warehouses and factories) to support them in better managing and reporting food shipments. Specific training for counterparts was held in 2005 and a follow-up session is planned for the last quarter of 2007.</p>		<p>The introduction of COMPAS in the country office and the efforts undertaken to build capacity of counterparts in completing required forms affecting movements of commodities enhance the ability of the country office to track commodities and account for post-delivery losses. The Secretariat deemed that the actions taken by the country office have addressed the recommendation and it is therefore deemed as completed.</p>	<p>The Secretariat has taken action to improve the integrity of post-delivery loss reporting and the effectiveness of the COMPAS system. We will continue to assess the reporting of post-delivery loss through COMPAS operations in our future field visits.</p>